



The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

Number 20

REAL ESTATE MORTGAGE ACTIVITY

The most significant development during the past month has been the change in the real estate mortgage situation. This was brought about primarily by the agreement between the United States Treasury Department and the Federal Reserve Board. As a result of this agreement, the Federal Reserve Board stopped supporting the price of certain negotiable government bonds and the Treasury Department offered a new issue of nonmarketable bonds in March paying 2-3/4% interest. The holders of 2 1/2% governments could convert them into 2-3/4% and many large institutional holders have converted to the higher interest rate.

With mortgage interest rates at their present level and with present servicing costs, many institutional lenders would prefer the 2-3/4% return over the alternative of liquidating the 2 1/2%'s at a loss in order to get additional funds to put into mortgages. This has resulted in many large institutional lenders turning more conservative and making fewer inducements in order to expand their mortgage portfolios. As a result, many mortgage brokers are complaining that they cannot get the quick and easy accommodations from their principals which they secured a few months ago.

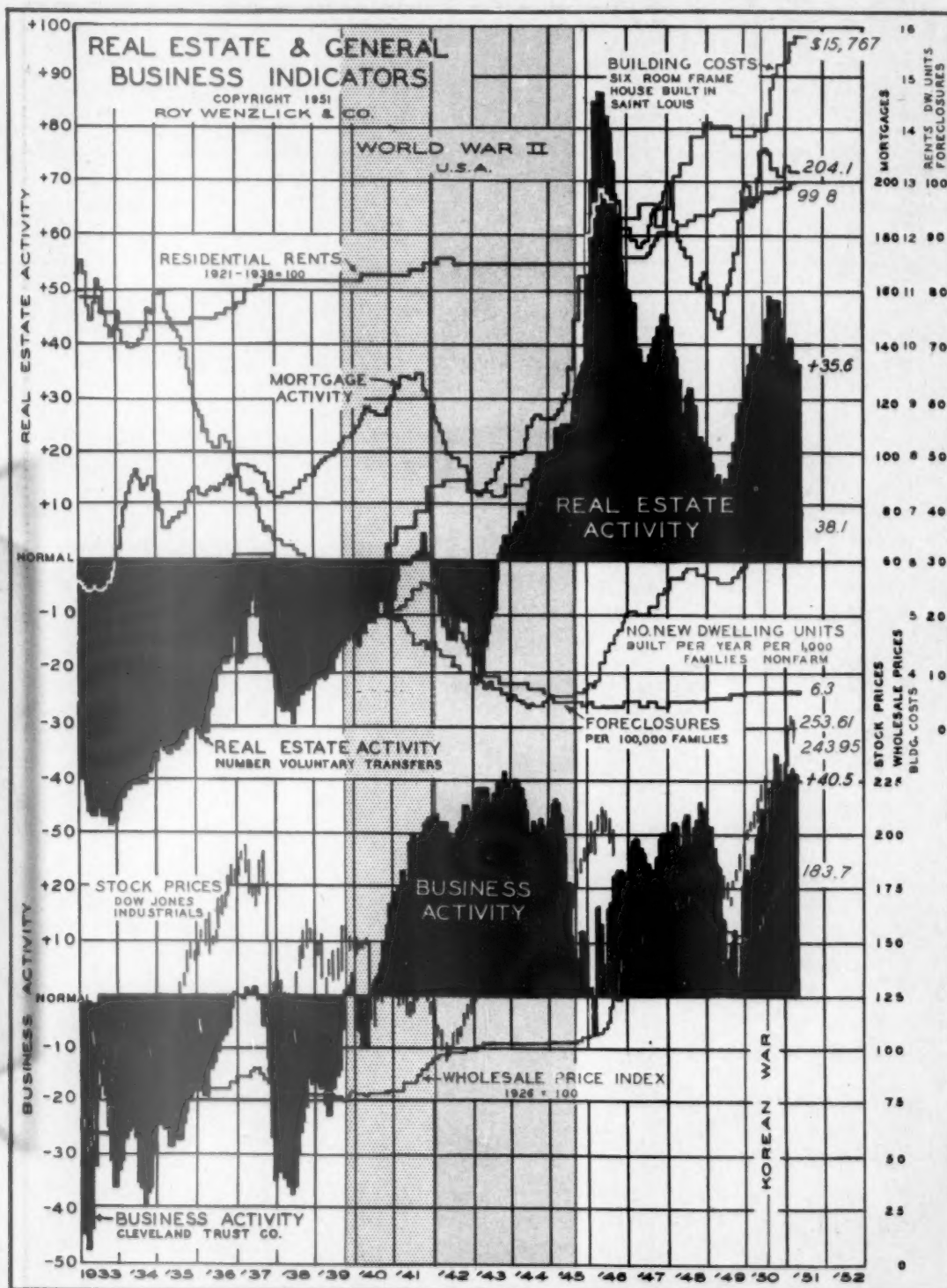
The March index number shown on our chart of 204.1 for mortgages has increased by 0.6 since the preceding month. Our mortgage activity line, however, is based on mortgages recorded and there is always some lag between the date at which a mortgage is made and the date of its recording. For this reason, too, the effect of Regulation X has not yet become apparent in our line and will not be fully effective for a number of months in the future, as many mortgages which have not yet been recorded were under commitment at the time Regulation X went into force.

REAL ESTATE ACTIVITY

Real estate activity continued its slow downward drift from the peak reached last August of 48.5% above normal. The current reading is 35.6% above normal. It seems to us that during 1951 real estate activity will continue to drift downward as undoubtedly construction volume will be below a year ago and a substantial portion of last year's activity consisted in the transfer of new properties.

CONSTRUCTION ACTIVITY

The first few months of 1951 showed construction activity high, in spite of Regulation X limiting the percentage of loan which could be made on a new (cont. on page 217)



(cont. from page 215)

building. The effect of Regulation X, however, is slowly becoming apparent, and the preliminary figures for March would now indicate that 24,300 fewer dwelling units were started in March of this year than in March of 1950. This will be the second month in which the number of new dwelling units started has been below the number of the corresponding month of a year ago. The drop in comparison with a year ago, however, is increasing and as the year progresses construction figures will be below last year's figures by larger and larger percentages. It still seems to us, however, that the figures for the year will come within the government estimates of 800,000 to 850,000 dwelling units.

BUSINESS ACTIVITY

Business activity so far in 1951 has shown relatively little change in the levels established during the last part of last year, and we see no reason why any radical changes should be anticipated at the present time.

It is probably true that many consumers overbought this last fall and that some retailers built up inventories that under ordinary circumstances would be considered excessive. In a period of rising manufacturing costs, however, there is not too much danger in excessive inventories and there will probably be no great effort to liquidate these through any radical price reductions. A slight reduction in dealer purchases while these inventories are being run off should have no great effect on general business activity.

The chart on the center spread of this report shows the fluctuations in the various types of wholesale prices from 1913 to the present. For all of these prices the period from 1921 to 1938 is considered as 100.

On that basis, building materials are now higher priced than any of the other general items in the wholesale price index, being almost $2\frac{1}{2}$ times the average of the 18-year period used as a base. This is undoubtedly the result of the excessive demand which developed in the last few years due largely to the very loose credit which made a tremendous building boom possible.

Hides and leather products are also very high priced, being second only to building materials, and these are followed in order by farm products, food products and textile products.

The best showing of any group in the wholesale price series is made by chemicals and allied products, and the superiority of this group was very pronounced prior to the war demand since the Korean situation developed.

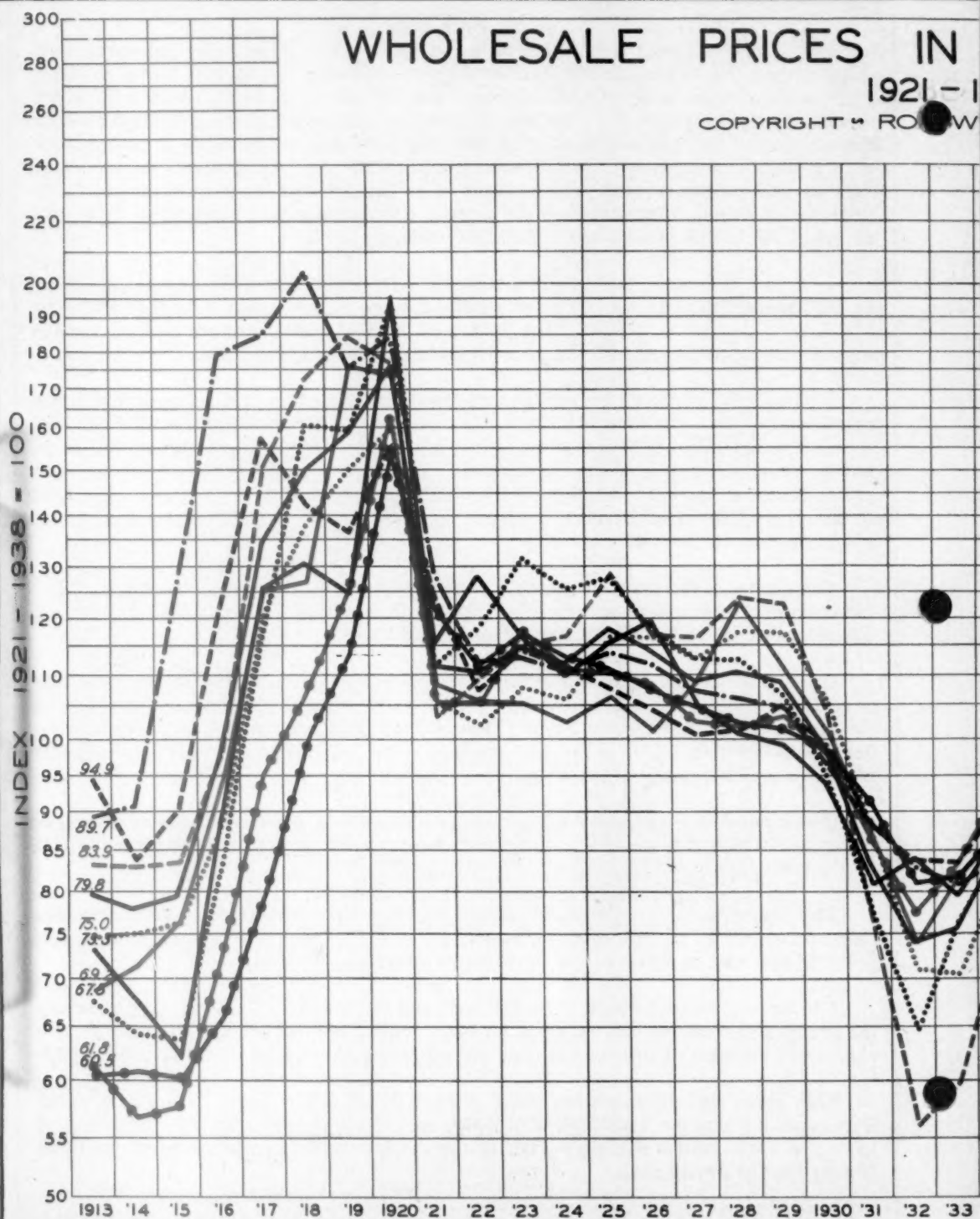
The second best showing is in the fuel and lighting field, and here apparently the present war has not had too great an effect. All housefurnishing goods and metals and metal products at the present time are below the average of all wholesale prices.

This chart clearly shows the effect of wars on the price level. The First World War caused the peaks culminating in 1920, and the Second World War the peaks of 1947 and 1948. World War II $\frac{1}{2}$ is largely responsible for the new peaks which we have reached in the recent past.

WHOLESALE PRICES IN

1921-1

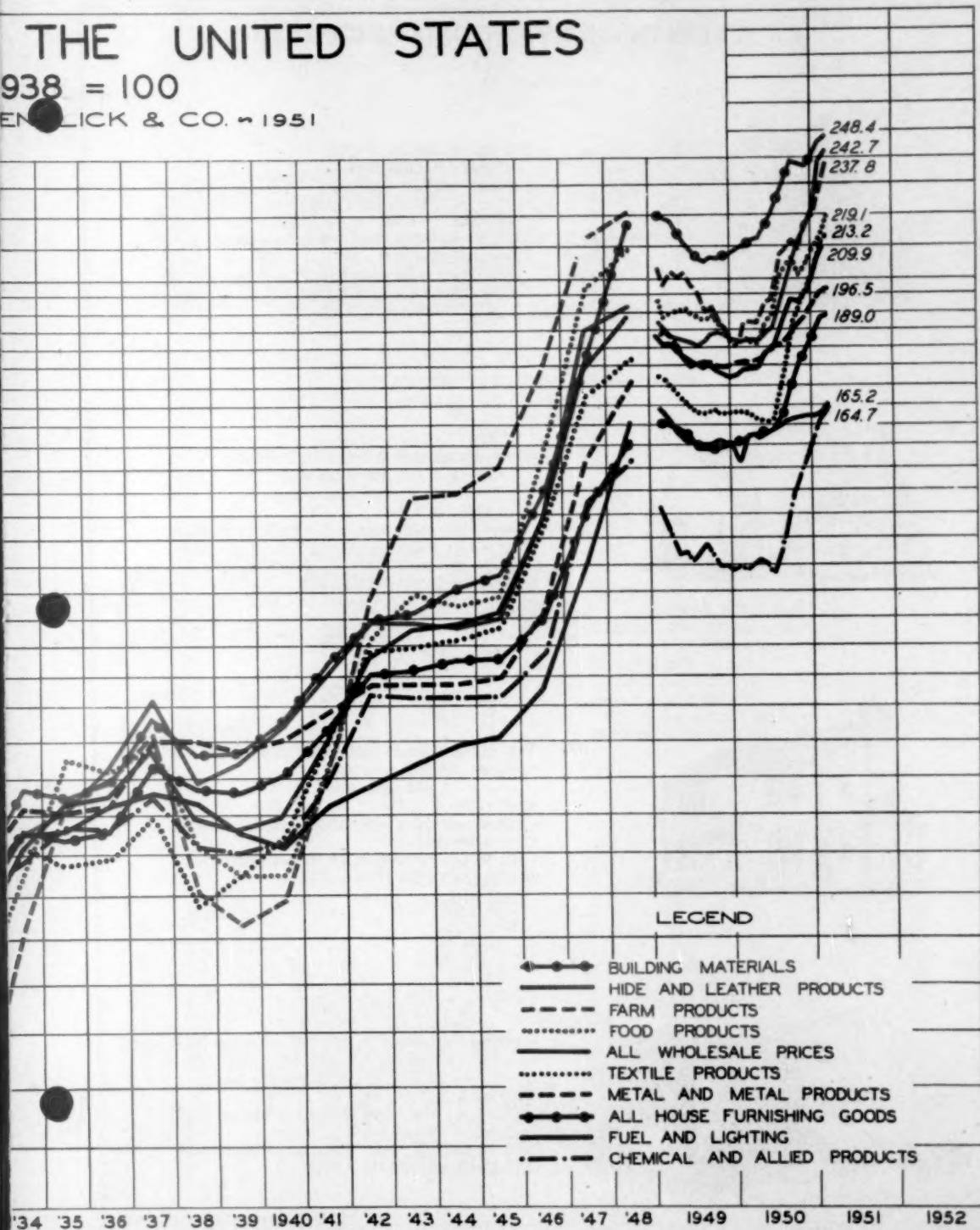
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THE UNITED STATES

1938 = 100

ENGELHART & CO. - 1951



INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)

April 1951



SIX-ROOM BRICK HOUSE

(FRAME INTERIOR)*

Content: 23,100 cubic feet
1,520 square feet

Cost 1939: \$ 6,400

(27.7¢ per cubic foot; \$ 4.21 per square foot)

Cost today: \$16,377

(70.9¢ per cubic foot; \$10.77 per square foot)

INCREASE OVER 1939 = 156%



FIVE-ROOM BRICK VENEER HOUSE*

Content: 24,910 cubic feet

1,165 square feet

Cost 1939: \$ 5,440

(21.8¢ per cubic foot; \$ 4.67 per square foot)

Cost today: \$14,236

(57.1¢ per cubic foot; \$12.22 per square foot)

INCREASE OVER 1939 = 162%



SIX-ROOM FRAME HOUSE*

Content: 24,288 cubic feet

1,650 square feet

Cost 1939: \$ 5,671

(23.4¢ per cubic foot; \$3.44 per square foot)

Cost today: \$15,767

(64.8¢ per cubic foot; \$9.56 per square foot)

INCREASE OVER 1939 = 178%



6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT

Content: 12,119 cubic feet

992 square feet

Cost 1939: \$3,117

(25.6¢ per cubic foot; \$3.14 per square foot)

Cost today: \$8,440

(69.6¢ per cubic foot; \$8.51 per square foot)

INCREASE OVER 1939 = 171%

*Costs include full basement.

INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)

April 1951



COMMERCIAL BUILDING - NO BASEMENT

Content: 115,850 cubic feet

8,075 square feet

Cost today: \$49,057

(42.3¢ per cubic foot; \$6.08 per square foot)



18-FAMILY BRICK APARTMENT

(FRAME INTERIOR)*

Content: 168,385 cubic feet

13,260 square feet

Cost 1939: \$ 60,300

(35.8¢ per cubic foot; \$ 4.55 per square foot)

Cost today: \$156,064

(92.7¢ per cubic foot; \$11.77 per square foot)

INCREASE OVER 1939 = 158.8%



30-UNIT REINFORCED CONCRETE APARTMENT*

Content: 303,534 cubic feet

21,372 square feet

Cost 1939: \$135,000

(44.5¢ per cubic foot; \$ 6.33 per square foot)

Cost today: \$335,893

(\$1.11 per cubic foot; \$15.72 per square foot)

INCREASE OVER 1939 = 148.8%

*Costs include full basement.

HOW MUCH IS THE DOLLAR WORTH?

ALL of us see and hear frequent references to the value of the dollar. At times we hear such widely varying values that we know something is wrong. Even in the recent days of rapid price changes, the dollar's value has not shifted so rapidly as some of the figures seem to indicate. Several subscribers have written to us for some explanation of these widely varying figures.

Most of us know that the value of the dollar is also referred to as its "purchasing power," or how much of a certain commodity (or group of commodities) can be had in exchange for it. Therefore, the value of the dollar depends on what you intend to buy with it. If you're going to buy baking soda or certain bottled drinks, or some article whose price has not changed, the dollar is worth the same as it was 20 or 30 years ago. A dollar will still buy 20 packs of chewing gum just as it would 40 years ago, so in terms of chewing gum the dollar is still worth 100¢.

On the other hand, the prices of most articles have advanced a great deal in the last 40 years. Therefore, the dollar will not buy so much of them as it would have bought 40 years ago. This is another way of saying that the dollar's purchasing power is not so great as it was in 1911 or that the dollar's value has declined. When most people talk about the value of the dollar they are talking about the value of the "consumer" dollar. The "consumer" dollar is that dollar which is spent at retail to buy food, clothing, furniture, shelter, heat, light and other necessities. It is also referred to as the "cost of living" dollar. The value of this dollar goes down as the "cost of living" goes up. Since the "cost of living" (as reflected in the Bureau of Labor Statistics index) is at an all-time high, the value of the "cost of living" dollar is at an all-time low. (During the remainder of this discussion we will deal with the value of this "cost of living" dollar.)

Another factor that causes different values to be assigned to the present worth of the dollar is the base year. Now the base year is nothing more than the year chosen as the starting point with which the comparison is made. It is the year when it is assumed arbitrarily that the dollar was worth 100¢. The most commonly chosen base year is 1939, and the most recently computed value of the 1939 dollar is 54.1¢. In other words, if during 1939 your "cost of living" dollar was worth 100¢, its most recent value (February 1951) is 54.1¢. Another base year that is frequently used is 1913 and, by the same process, the 1913 dollar is now worth 38.5¢. In the same manner the 1825 dollar is worth 22.3¢ and the 1850 dollar is worth only 20.8¢. So you see that the base year makes a tremendous difference in the so-called value of the dollar. The figures actually mean nothing unless the base year is specified.

The values shown (in red) in the following table represent the present worth of the dollar based on the various years. For example, the dollar that was worth 100¢ in 1825 is worth 22.3¢ today; the dollar that was worth 100¢ in 1875 is worth 33.1¢ today; and the dollar that was worth 100¢ in 1939 is worth 54.1¢ today.

Dollar worth 100¢ in	Now worth	Dollar worth 100¢ in	Now worth	Dollar worth 100¢ in	Now worth	Dollar worth 100¢ in	Now worth
1825	22.3¢	1920	77.9¢	1939	54.1¢	1946	75.8¢
1850	20.8¢	1921	69.5	1940	54.2	1947	86.6
1890	23.4	1925	68.2	1941	57.2	1948	93.1
1895	39.2	1929	66.7	1942	63.4	1949	92.0
1875	33.1	1932	53.1	1943	67.2	June 1950	92.6
1900	30.7	1933	50.3	1944	66.3		
1913	38.5	1935	53.4	1945	69.9		